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HEADLINE: Boom benefits remodel firms

BODY:

Builders of new houses in the Chicago area, buoyed by low interest rates and a steady migration to fast-growing suburbs, have basked in prosperity the past few years.

Less noticed has been the home remodeling industry, which also has enjoyed a boom, though typically on a far different scale.

Recent homebuilding has been dominated by big national companies such as Pulte Homes Inc. of Bloomfield, Mich., and D. R. Horton Inc. of Arlington, Texas. Even solo handymen are aligning themselves with national franchises, such as Waco, Texas-based Worldwide Refinishing Systems Inc.

But there's been little consolidation in the remodeling segment, where a big contractor is one with more than \$2 million in sales and a dozen employees. The business remains stubbornly independent, resolutely individualistic.

"People have talked about it, saying they could gain efficiencies by rolling up contractors and centralizing their marketing and internal systems," says Kevin McNulty, executive vice-president of the Des Plaines-based National Assn. of the Remodeling Industry. "But for now, this is a business that is still locally delivered on the basis of reputation and referrals. If you tried to centralize these companies, you'd probably lose the high level of attention to detail that is required."

The remodeling industry, often maligned for shoddy work ranging from inept carpenters to substandard materials, recognizes its image problem.

Fly-by-night operators find it an easy business to get into—a tool belt and a truck are sometimes enough to get started—and vanish before the paint peels or the tile grout cracks.

EXHIBIT

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"Too many homeowners set themselves up for trouble. They take three estimates and they pick the cheapest company, not bothering to ask whether that company has insurance or a list of referrals," says **Don Van Cura**, owner of **Don Van Cura Construction Co.** on the Northwest Side. The 18-year-old firm has about a dozen employees and annual revenues of close to \$1 million.

The industry association has 5,800 members, but Mr. McNulty estimates that's a silver of those in the business.

"There may be as many as 700,000 remodelers in the U.S.," he says. "There is almost no barrier to entry into this career."

In Chicago, he adds, there are 3,500 licensed contractors, though the number of moonlighting unlicensed workers is hard to calculate and even harder to regulate.

Those drawn to the remodeling career are often jacks-of-all-trades with an itch to escape the humdrum world of building look-alike new houses.

Kenneth Limong started out laying concrete, later became a carpenter and then owned a muffler shop. Now, he owns Applied Construction Concepts Inc. in Aurora, which employs three and has annual sales of nearly \$500,000.

He bids his jobs-which have included putting up a wall in a home for \$1,500 to building out a new computer store for \$60,000-with a gross profit margin of between 20% and 25%.

"I gave up the muffler shop after Midas moved in down the street and started promoting \$59 brake specials," Mr. Limong says. "In remodeling, I don't have to worry about marketing because the best advertising is word of mouth. I don't even have a Yellow Pages listing."

Home territory

Homebuilders and remodelers rarely tread on each other's turf

Thomas Morrison, the owner of Morrison Construction in Northlake, puts up an occasional townhouse for a client, but he prefers the profits in remodeling. Gross margins on new houses often run as low as 10% to 12%, he says, while remodeling projects deliver profit closer to 20%.

"In doing new houses for developers, you're dealing with general contractors with very sharp pencils," Mr. Morrison says. "But when a remodeler is good, his clients won't argue about price much. They typically don't have the knowledge that a developer has."

Many remodelers develop specialties.

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Siding One Windows One Inc. on the North Side, a remodeling giant with annual revenues in the \$10-million range, limits itself to the items in its name. "It's like going into a restaurant with 77 things on the menu," President Bill Conforti says. "You have to wonder how they can all be good. Too many remodelers promise more than they can deliver."

Creative Carpentry Remodelers Inc. in Aurora often is called in to build new bathrooms. There is plenty of demand for that, according to Linda Holmes, president and co-owner.

"I grew up in a house with six people sharing a bath-and-a-half. Nowadays, that's unheard of," Ms. Holmes says. "People want luxury touches, like multi-head showers and \$2,000 hand-painted toilets from Kohler. Even in ordinary neighborhoods, people are willing to spend more for granite countertops."

Business in the industry is robust. In 1980, according to the U.S. Census Bureau, the remodeling industry generated \$43 billion in revenues. That grew to \$115 billion in 1990 and \$153 billion by 2000. The National Assn. of Homebuilders in Washington, D.C., projects \$167 billion in remodeling spending this year, up more than 4% from 2001.

"The biggest homebuilding decade in history in the U.S. was in the 1970s, when 21.3 million homes were put up," says Rick Strachan, group publisher of Remodeling magazine in Washington, D.C. "Those homes are all now turning 20 to 30 years of age. Statistics tell us that homes of that age represent the biggest market for remodeling. So, we're in a prime period right now for the industry."

Slower times ahead

Still, some remodelers see business growing slack recently. Investment portfolios-once counted on to subsidize a house addition or kitchen makeover-have been depleted. Mr. Van Cura had a two-year backlog of projects in 1999, before the stock market tanked. Today, his backlog is down to nine months.

"I could hire more people and do more projects simultaneously, but that means I'd have to work 12- and 14-hour days myself to keep control of all the details," he says.

Other remodeling contractors echo that refrain. Few have ambitions to grow large.

"Most of us find a market niche, or a geographic niche, and we settle in and we're happy," says David Callahan, president of Callahan & Peters Inc. in Glenview, which traces its roots on the North Shore back to 1948.

Mr. Callahan employs just eight workers and has revenues of \$1 million.

"I have no interest in franchising, which would be tough in this business," he says. "And there is no model for it. If you own a corner hamburger stand, it's easy to find a model. But there is nothing like that in the remodeling industry." That's probably because

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